WEALTH MANAGEMENT

Broadridge

MODULE 2

Broadridge SBL Practice Optimizer

Finding Your First SBL Prospect

Taking the simple and direct approach to finding your first SBL prospect starts with looking at your current book for business.

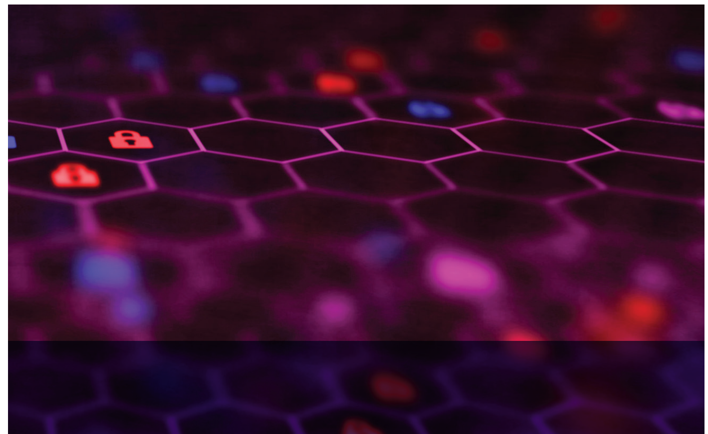
Ready for Next

Introducing your clients to a new source of liquidity and working capital can set you apart from the competition.

Introduction

Everyone needs more working capital; whether to pay a tax bill, make a real estate purchase, pay college costs, cover an estate settlement or just build a rainy-day fund. Cost-effective and easy to implement, Securities-Based Lending (SBL) allows you to talk about lending and liability management in a way that deepens each relationship – and while doing so, you'll gain new insights into short-term needs and long-term goals. Opening the door to discussions about liquidity needs can have the added benefit of keeping assets under your management – and potentially attracting fresh assets to the investment management side of the balance sheet.

In the first module of the SBL Practice Optimizer, we introduced the role SBL can play in helping clients raise capital to meet a wide variety of needs. This second module of this three-part C.E.-accredited practice management resource will outline the basic steps you need for introducing SBL to qualified clients – and for closing your first SBL sale.



TAKEAWAYS FROM MODULE 2

After completing the SBL Practice Optimizer: Module 2, you will be able to:

I. View client debt as an overlooked route to greater wealth creation
II. Include debt management in holistic client discussions
III. Distinguish risk exposures among liability options
IV. See how portfolio appreciation empowers SBL strategies
V. Understand why investors are increasingly open to SBL's advantages
VI. Discover which prospects are right for SBL
VII. Begin building your own SBL business development strategy

I. VIEWING CLIENT DEBT AS AN OVERLOOKED ROUTE TO WEALTH CREATION

As algebra students know, solving half an equation is no solution at all.

Similarly, financial professionals who focus on asset management alone are considering only half of their client's financial picture. Advisor reluctance to assume a more rounded wealth management role for their clients has three primary causes:

Avoidance of complexity

For wealth managers, arranging client loans may be initially perceived as an unfamiliar task to be avoided. Their reasoning can be expressed as: "I like to keep life straight-forward for me and my clients – and loans create complications."

Managing assets, but not debt

Comforting habits are often the hardest to break. The reason for this could be expressed as: "I feel better doing things the way I have always done them. The last thing I would want to have to deal with during a market downturn is a client with falling portfolio values and a debt exposure."

Struggling with contradiction

"The way I have always done things" may harbor a hidden trap. Applying the principle of portfolio diversification has long been a traditional driver for advisors. When the client's overall best interest is fully considered, the role of diversification extends beyond asset management to include a more rounded management of the client's entire balance sheet. In this broader diversification scenario, SBL offers rapid access to liquidity at a lower cost than other credit products without disrupting the client's portfolio strategy.

II. INCLUDING DEBT MANAGEMENT IN CLIENT DISCUSSIONS

Debt management is a valuable part of a comprehensive wealth management strategy. Most of us will borrow during our lives for one reason or another, often resulting in a sub-optimal mix of mortgages, student loans, credit card balances and personal loans.

Strategic debt may offer a client the potential to consolidate expensive legacy loans while supporting a well-balanced investment strategy over time. An alternative to higher-rate debt, strategic solutions like a Securities-Based Lending Line of Credit (SBLOC) can also help clients manage potential tax exposure by providing an alternative to liquidating assets to raise capital as illustrated in the following SBLOC use case:

An UHNW empty nester couple reaches retirement and wants to downsize to their dream house. However, they find themselves in a quandary: They need to use the proceeds from the sale of their current home to pay for their new one and do not know what to do. Fortunately, their advisor knows how to use an SBLOC as a bridge financing solution to gain the quick and easy access to the low-cost capital they need to lock in their

III. DISTINGUISHING RISK EXPOSURES AMONG LIABILITY OPTIONS

Credit cards can lead to spiraling debt and interest costs that are many times the original principal amount. Too much of this sort of debt can result in exorbitant interest costs that are not tax deductible.

For some borrowers, a Home Equity Loan Line of Credit (HELOC) provides an unwanted lien on a primary residence.

SBLOCs in contrast provide borrowers with interest rates that are typically lower than the alternatives without the burden of a real estate lien or demanding underwriting as financial statements and tax returns are not usually required.

SBLOCs may be backstopped with alternative credit lines such as a HELOC so that switching between credit products is easy and fast should market conditions warrant a change in strategy.

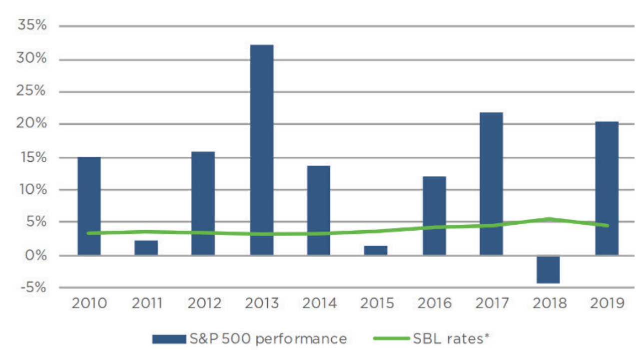
IV. SEEING HOW PORTFOLIO APPRECIATION EMPOWERS SBL STRATEGIES

The chart above dramatically illustrates how SBLOCs allow investors to consolidate their debt into a single, secure, lower-cost vehicle by leveraging the power of their appreciated assets to reduce their debt ratio. In this way, clients capture any valuable spread between appreciation and interest charges as the return from the underlying assets potentially soars past the cost of borrowing.

Client investment assets, usually highly-liquid, offer quality collateral for credit. As a result, SBLOC interest rates have proven to be historically competitive in comparison to conventional bank loans or credit card advances.

Record equity market performance has easily outstripped SBL rates, which are traditionally based on a premium over the benchmark inter-bank interest rate (SOFR, BSBY or similar). In seven of the past 10 years, SBL rates were lower than the S&P 500® Index annual returns.

BULL MARKET DECADE PROVIDE S FUEL FOR SBLOC



Securities-Based Lending (SBL) is not for everyone

SBL's mix of collateral and favorable loan terms offers real value – with a caveat: Your prospective client must have sufficient assets to support the loan terms, even during periods of unusual market volatility. If the value of the leveraged securities drops significantly, lenders can demand additional collateral or call in the loan. Further, an SBL Line-of-Credit (SBLOC) cannot be used to purchase additional securities or pay back a pre-existing margin loan.

As with all borrowing arrangements, it is critical that your client understands the terms of their loan and the risks involved and for you to be prepared to answer their questions.

V. UNDERSTANDING WHY INVESTORS ARE INCREASINGLY OPEN TO SBL ADVANTAGES

Investors have locked in record portfolios values and are open to exploring current ideas.

This may prove to be the optimal moment to explore the working capital opportunities that reside on the debt side of the client's balance sheet.

As greater numbers of investors attain substantial portfolio gains, many affluent, mid-career individuals have been increasingly drawn to new opportunities in crypto-currency, ESG investing, private equity, venture capital and more.

This openness to innovative investment ideas provides a mirror image, a liability management complement, that fits with the advisor's own pursuit of a broader, holistic approach to building relationships. While SBLOCs cannot be used to buy securities, the credit line can be utilized for other wealth creation purposes including real estate investing, expanding a business or establishing a rainy-day fund.

Eager to learn more from advisors

Digital engagement through web sites, Zoom calls and especially social media are fueling investor interest in learning more about modern strategies and new tools from advisors, according to Wealth Management 2021: Using Technology to Engage Clients.[1]

Investors are eager for engagement and outreach from advisors. "Sixty percent of all investors say they want to hear from their advisor more often, with Millennials leading the list at 85% and Baby Boomers representing a sizable minority," the report noted. "More than forty percent of respondents say they're most likely to take an investment recommendation on social media from their financial advisor."

While the findings reflect a more open attitude toward investing in new asset classes, especially among younger cohorts, strategies driven from the other side of the balance sheet, such

[1]Wealth Management 2021: Using Technology to Engage Clients

VI. DISCOVERING WHICH CLIENTS ARE RIGHT FOR SBL

Strategic debt solutions like SBL can offer a client the potential for greater wealth creation as well as a working capital alternative to other higher-rate debt as the following use case illustrates:

A HNW couple wants to undertake a major remodeling of their home at a cost of $175,000. While they explore the possibility of using a home equity line of credit (HELOC), their wealth manager encourages them to consider an SBL strategy instead to fund the project. After comparing each option's variable rates, they select and SBL approach for its flexible usage and repayment terms, lower total cost and lack of additional out-of-pocket expenses.

SBL is powerful tool to help your clients leverage the liquidity in their portfolios, build more wealth and manage their tax exposure.

LET SBL HELP YOU OFFER MORE OF WHAT YOUR CLIENTS NEED MOST:

- Working Capital
- Cash Flow Management
- New Financial Strategies
- Better Debt Management
- Education Financing
- Tax Liability Optimization

Put SBL at the core of your business strategy Integrating SBL into your practice creates lasting relationships

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- SBL helps deepen client relationships by letting high-quality assets generate a readily available source of credit.
- Distinguish risk exposures among liability options
- See how portfolio appreciation empowers SBL strategies
- Understand why investors are increasingly open to SBL advantages
- Discover which prospects are right for SBL

HERE ARE SOME OF THE MOST ATTRACTIVE PROSPECTS FOR DISCUSSING THE ADVANTAGES OF SBL:

PROSPECT	PERSONAL NEED FOR WORKING CAPITAL
Entrepreneur needs working capital to grow an enterprise	By committing a portfolio percentage as collateral to an SBL, executives gain a flexible, low-cost line of credit to apply toward capital expenditures, salaries, marketing and more.
A High Net Worth Investor (HNWI) has a significant income tax payment and is looking for an alternative to liquidating portfolio securities	Managing capital gains tax exposure through an SBLOC is one of the most popular wealth management applications for this strategy. While freeing up capital to pay the individual's tax liability, the investment portfolio remains intact and on track with the investor's long-term growth objectives. Note that capital gains and resulting tax could result if the securities are eventually sold for a profit.
Real estate investor wants to buy a commercial property	When real estate opportunities knock, timing can be everything. Having an SBL in reserve gives real estate investors a competitive edge when it comes to closing the deal.
Wealthy retiree needs an emergency fund	Climate change can get expensive for people who own multi-million-dollar homes near the water. Wealthy retirees worried about flooding, wind damage, or other hazards, will find that an SBLOC reserve fund can provide the relief they need if disaster strikes.
UHNW individual aims for a major purchase	A multi-millionaire is set to sail into the sunset by using an SBLOC to fund a major purchase rather than cashing in any of her portfolio.
Affluent Millennial balances long-term goals with short-term dreams	As one of the emerging pre-Millionaires that form the Affluent demographic, this client is accessing the same liquidity tool as the UHNW and HNW to realize a dream of paying down debts over the short-term while retaining a reserve of working capital.
A HNW couple need to prepare for major events and significant expenses down the road	Short-term financing for home improvements as well as expenses for education payments, weddings, major anniversary trips and other outlays can be met through an SBLOC.

VII. BEGIN BUILDING AN SBL BUSINESS DEVELOPMENT STRATEGY

No one is more ideally qualified to participate in the collateralization of each client portfolio than you. Let Broadridge's SBL Practice Optimizer serve as your own marketing "strategy-in-a-box".

Two good reasons to consider SBL

1. **A shorter route to holistic success:** SBL offers a shorter route to achieving a broader range of holistic goals for your client – and your practice. Here is why: SBLs are grounded in investment products and markets you already know and a portfolio you have already helped to design.

2. **Improve your digital performance:** When delivered digitally, SBL can be fully accessible online. This way, ongoing oversight will trigger alerts for topping off margins before they are called and safeguarding client assets. Choosing a digitized path provides these distinctive advantages:

- Digital processing: Institutions can underwrite and approve loans quickly, often enabling origination in the client meeting or call
- Rapid approval: A better advisor and client experience means no two-week delays
- Remote signing: Up to 80% of loans are simple and digital; easily facilitated by e-signatures
- Fewer steps: Cyclical approvals and multiple stages are eliminated, allowing for a streamlined client experience

Put SBL To Work as Part of Your Turnkey Marketing Strategy for Today and Tomorrow

To meet client demands for additional financial wellness choices like financial planning, risk management, cash flow and other strategies, you require more than access to investments and portfolio strategies. You want complementary offerings that can lead to comprehensive, holistic visions of each client's financial wellness picture, a view that accesses the challenges and opportunities on both sides of a client's balance sheet.

SBL opens and evolves client dialogues in new and productive directions. When you present both strategies on both sides of your client's balance sheet you join the growing number of lending advisors who are unlocking the liquidity that lies hidden in equity portfolios.

Securities-based lending is a low-cost, flexible liquidity tool. It is not suitable for everybody and carries certain risk, including but not limited to:

- Only qualified assets may be used – e.g. securities held in a retirement account are ineligible for a securities-based loan
- The proceeds from securities-based lines of credit may not be used to purchase additional securities or to pay down margin
- Interest rates may rise, increasing the cost of borrowing
- Market downturns may cause the value of pledged securities to fall below the loan thresholds, requiring the borrower to pay down the line of credit or to pledge additional eligible securities in order to maintain the loan.
- Securities can be sold (with or without advance notice to the client) to meet maintenance calls at the lenders' discretion, which may cause the borrower to suffer adverse tax consequences
- Financing real estate and other illiquid purchases with a securities-based line of credit carries risk and may not be appropriate for your needs. A complete assessment of your circumstances is needed to help determine the best loan for your purpose
- Always carefully review the loan agreement, which explains the terms and conditions of the loan

Accessing SBL May Be Easier than You Think

If your practice is affiliated with a bank, it is likely that SBL is already available in your firm. This means you can start offering credit as part of your product suite.

For independent practices and those unaffiliated with a bank, you can access SBL through Broadridge's Wealth Lending Network (WLN). The WLN enables wealth managers of any size to add SBL to their product offering. For more information, click here to learn how you can quickly initiate a competitive SBL loan for your clients.

SUMMARY:

- Enhance business development when you add depth to a rounded, holistic practice, with debt management as a valid part of a wealth creation strategy
- Address clients' needs for working capital, ready liquidity and debt consolidation
- Easily integrate an SBLOC capability with your dashboard, social media accounts and other digital tools

NEXT STEPS:

1. Qualify Your Client Base with questions like these:

"How likely are you to make a major purchase (such as real estate or for a luxury item) over the next year?"

"Do you have outstanding debt that you would like to consolidate at a lower rate?"

"Are you concerned about having to liquidate investment assets, potentially triggering a capital gains payment to the IRS?"

2. Download copies of our client-use Personal Liquidity Selector to compare three popular credit choices

3. Review CE-Accredited: Broadridge SBL Practice Optimizer Module 3

Can you get a perfect score?

Proceed to complete the Pop Quiz for this module.

MODULE 2 POP QUIZ: DO YOU UNDERSTAND THE BASICS OF SECURITIES-BASED LENDING?

Take the SBL Practice Optimizer challenge for Module #2. Review your answers on the last page.

1. Causes of advisor reluctance to assume a more rounded wealth management role with their clients (one that includes managing liabilities as well as assets) includes all of the following except one. Which is the exception?

A. Loans create complications.	
B. Comfortable habits are hard to break.	
C. Dealing with debt consolidation with securities is scary – especially in a market downturn.	
D. The role of diversification applies equally to debt management as well as asset management.	

2. Trigger points for potential SBL interest occur if the client mentions which of the following?

A. The individual is struggling with cash flow management.	
B. A friend presented a prospect with a hot stock tip.	
C. An entrepreneur expresses a need for a better debt management strategy.	
D. A parent says they are planning to send a child to college.	
E. A client needs working capital and is looking for an alternative to selling investments and paying substantial long-term capital gains.	
F. A client expresses an interest in learning about new financial strategies.	

3. Faced with a major home remodeling project, a High Net Worth couple opt for a Securities-Based Line of Credit over a Home Equity Line of Credit for which of the following potential reasons?

A. The SBLOC's repayment terms tended to be more favorable.	
B. Overall, the SBLOC provided a greater degree of flexibility.	
C. The couple liked the idea of putting another lien on their primary residence.	
D. The HELOC contained additional out-of-pocket expenses.	
E. The total cost of the SBLOC was lower.	

4. The record stock market added luster to the SBL marketplace over the past decade. Which of the following statements are false?

A. Short sellers are likely to prefer SBLs over other types of debt.	
B. SBLOCs let client consolidate their debt into a single, secure, usually lower-cost vehicle by leveraging the power of their appreciated assets to lower their debt ratio.	
C. With an SBLOC, clients capture the spread between their appreciated investments and interest charges as the return from the underlying assets soared past the cost of borrowing over the past decade.	
D. Because investment assets fluctuate in value, it is an intriguing challenge to calculate an interest rate for the purpose of establishing an SBLOC.	
E. Record equity market performance has easily outstripped SBL rates that are traditionally pegged to market base rates.	
F. In only two of the past 10 years, SBL rates were lower than the S&P 500® Index annual returns.	

5. A recent surveyi shows clients are eager to hear from their financial advisors more frequently. Why? (Check all that apply.)

A. Digital engagement is fueling investor interest in learning current ideas from advisors.	
B. The pandemic has made clients feel more vulnerable and open to greater contact from advisors.	
C. In an unexpected twist, Millennial investors outpace all other generational cohorts, including baby boomers, in their zeal for greater contact from advisors.	
D. Social media has proven to be a bust where investors and advisors are concerned. Only personal meetings and Zoom calls are acceptable.	
E. In their quest for innovative ideas, investors are likely to welcome explorations that include the liability side of their balance sheet.	

6. Which of the following represent potential prospects for discussing the advantages of an SBLOC?

A. Real estate investor who wants to buy a commercial property.	
B. An UHNW individual who is aiming to make a major purchase.	
C. Entrepreneur who needs working capital to expand an enterprise.	
D. HNW couple with their dream retirement home on a coastal flood plain need an emergency fund in case of a weather catastrophe.	
E. A college graduate who just invested in a first IRA is looking to balance long-term goals with short-term dreams.	
F. A High Net Worth Investor (HNWI) has a significant income tax payment and wants an alternative to liquidating portfolio securities	

FOR MORE INFORMATION ON

Broadridge's SBL platform and Wealth Lending Network, please contact **jeff.leone@broadridge.com** or visit **broadridge.com/navigator**

7. Which of the following represent good reasons for financial advisors to develop an SBL business generation strategy of their own?

A. Acting as a kind of Marketing-Strategy-in-a-Box, SBL offers a shorter route to achieving a broader range of holistic goals for your client.	
B. SBLs are grounded in investment products and markets you already know.	
C. No one knows the collateralization potential of you client's underlying assets better than you.	
D. Where available, SBL's digitization features are designed to integrate seamlessly with your advisor desktop.	
E. Ben Franklin famously wrote "Neither a borrower nor a lender be."	
F. SBLOCs have fewer steps than other loans; underwritings can often be completed quickly – usually within 2-10 days.	

DO YOU WANT TO KNOW MORE?

Expand your knowledge of SBL and its benefits by taking a few minutes more to read these articles.

ARTICLE	DICRIPZTION
LEVERAGE, NOT LIQUIDATE: How Digital SBL Offers a Roadmap to Post-COVID Liquidity	Digitization of SBL through a single platform quickly unlocks capital for those clients looking to acquire a business, make a major purchase, pay taxes and more. Discover why financial institutions are focusing on SBL as a key enabler for client retention and the attraction of new AUM.
As Clients Embrace Holistic Lending, Some Advisors Hesitate	According to a Broadridge Survey of the SBL Industry, 77 percent of private banks polled believe that SBL is a "must-have" product. Here's how both wealth managers and advisors can become advocates for the role debt can play in the prudent expansion of purchasing power.
Unlock your advisors' "Inner Rainmaker" in 2021 with a strong SBL Pipeline	Managing a holistic wealth management strategy that includes optimizing credit as well as client assets not only makes good business sense, it's a demonstrable way to add value to a client's entire balance sheet.

The Broadridge SBL Practice Optimizer

An introduction to Securities-Based Lending

Module 1

Understanding the basics of Securities-Baised Lending

- Define what SBL is
- Understand how SBL works
- List three ways advisors benefit from SBL
- List three ways clients benefit from SBL
- Consider both sides of the client balance sheet
- Weigh the benefits of SBL versus other lending choices
- Set the stage for exploring your clients' liquidity needs
- Begin qualifying potential SBL-suitable clients

Module 2

Finding your first SBL prospect

- View client debt as an overlooked route to greater wealth creation
- Include debt management in holistic client discussions
- Distinguish risk exposures among liability options
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- Discover which prospects are right for SBL
- Begin building your own SBL business development strategy

Module 3

Putting SBL at the core of your growth strategy

- Incorporate lending advice into your holistic offering
- Let SBL act as a "Tier 3" differentiator for your business
- Put SBL at the core of your prospecting strategy
- Reach out to an expanding number of SBL prospects – including the Affluent
- Hone your ability to identify qualified SBL prospects
- Include introductory SBL messages in your client communications
- Establish yourself as an SBL Center of Influence
- Integrate SBL marketing goals into your business growth strategy

ANSWERS

1	D: "Diversification," a foundational principle of financial advice and investing applies to the liability management side of the balance sheet as well.
2	A, C, D, E, F: SBLOC funds cannot be used for buying more securities or paying down a margin account (B).
3	A, B, D and E: An SBLOC offers an alternative to option C: "putting another lien" on a residence.
4	A, D, and F: Short sellers (A) tend to view the market as going down; a less-than-ideal scenario for collateralizing portfolio securities. SBLOC interest rates (D) are typically pegged to a base interest rate like SOFR, BSBY or similar. In seven of the past 10 years, SBL rates were lower than the S&P 500® Index annual returns.
5	A, B, C, E: More than 40% of survey respondents[2] say they're most likely to take an investment recommendation on social media (D) from their financial advisor.
6	A, B, C, D, and F: SBLOCs are most suitable for investors with enough resources to temper the effects of major, short-term market corrections.
7	A, B, C, D, and F: Ben Franklin's quote (E), which appeared in Poor Richard's Almanac, refers to the wily author's injunction to readers to buy copies–and be "neither a borrower nor a lender" - of his book.

[2]Wealth Management 2021: Using Technology to Engage Clients

Broadridge Financial Solutions (NYSE: BR), a global Fintech leader with $5 billion in revenues, provides the critical infrastructure that powers investing, corporate governance, and communications to enable better financial lives. We deliver technology-driven solutions that drive business transformation for banks, broker-dealers, asset and wealth managers and public companies. Broadridge's infrastructure serves as a global communications hub enabling corporate governance by linking thousands of public companies and mutual funds to tens of millions of individual and institutional investors around the world. Our technology and operations platforms underpin the daily trading of more than U.S. $9 trillion of equities, fixed income and other securities globally.

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